

Message Text

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44

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FM SECSTATE WASHDC

TO AMEMBASSY MOSCOW

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E.O. 11652:N/A

TAGS: EAIR, UR

SUBJECT:CIVAIR: GOVERNMENT CIVAIR TALKS AND EXTENSION OF
CIVAIR BILATERAL

REF: A) MOSCOW 11452; B) STATE 115287; C) MOSCOW 6015

SUMMARY - AT INTER-CARRIER MEETING IN NEW YORK IN JUNE,
PAN AM AND AEROFLOT REACHED AGREEMENT ON LEVEL OF SERVICES
EACH WOULD OPERATE FROM NOVEMBER 1, 1975 THROUGH OCTOBER
31, 1978. AIRLINE AGREEMENT WHICH PROVIDES FOR SIGNIFICANT
INCREASES IN WEEKLY FREQUENCIES WOULD PERMIT PAN AM TO
OPERATE B-747 EQUIPMENT AND WOULD ENABLE AEROFLOT TO
OPERATE AT TWICE THE NUMBER OF WEEKLY FREQUENCIES DURING
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PEAK SEASON AS PAN AM AND TO OPERATE THROUGH INTERMEDIATES
ON ALL BUT ONE OF ITS WEEKLY FLIGHTS. EMBASSY IS RE-
QUESTED TO INFORM SOVIETS THAT USG UNABLE ACCEPT AIRLINE
AGREEMENT IN PRESENT FORM AND TO SOLICIT SOVIET VIEWS ON

AGREEMENT. PARAS 2-7 FOR EMBASSY'S BACKGROUND. END SUMMARY.

1. PAN AM AND AEROFLOT REACHED AGREEMENT AT JUNE 27 INTER-CARRIER MEETING WHICH, IF APPROVED BY GOVERNMENTS, WOULD PROVIDE FOR SIGNIFICANT INCREASES IN LEVELS OF SERVICE EACH WOULD OPERATE FOLLOWING EXPIRATION OF PRESENT

CIVAIR ARRANGEMENTS ON OCTOBER 31, 1975 THROUGH OCTOBER 31, 1978. DURING SUMMER SEASONS 1976, 1977 AND 1978, FOR EXAMPLE, AEROFLOT WOULD OPERATE 6, 7, AND 8 WEEKLY FREQUENCIES, RESPECTIVELY. PAN AM WOULD OPERATE AT HALF THE NUMBER OF AEROFLOT FREQUENCIES. AIRLINE AGREEMENT WOULD ALSO PERMIT AEROFLOT TO OPERATE THROUGH INTERMEDIATE POINTS BETWEEN THE US AND USSR ON ALL BUT ONE OF ITS WEEKLY FREQUENCIES. FINALLY, THE AGREEMENT WOULD PERMIT PAN AM TO USE B-747 EQUIPMENT ON MOST OF ITS FLIGHTS TO USSR - A CONCESSION WHICH PAN AM ARGUES OUTWEIGHS CONCESSIONS IT GAVE TO AEROFLOT IN THAT PAN AM WILL BE ABLE TO FOCUS ITS CAPACITY ON PEAK DEMAND DAYS AND PEAK DEMAND PERIODS. COPIES OF AGREEMENT POUCHED EMBASSY (MELENCAMP).

2. NOTWITHSTANDING AEROFLOT CONCESSION WITH RESPECT TO B-747, IN OUR VIEW THE PAN AM-AEROFLOT AGREEMENT MAKES EXTREMELY VALUABLE - AND PERHAPS UNACCEPTABLE - CONCESSIONS TO SOVIETS. IN FACT, VARIOUS TRAFFIC AND REVENUE DATA INDICATE THAT PRESENT CIVAIR ARRANGEMENTS ALREADY FAVOR AEROFLOT, AND SUGGEST THAT EXPANSION OF THESE ARRANGEMENTS COULD ONLY SERVE TO INCREASE IMBALANCE FURTHER IN AEROFLOT'S FAVOR. FOR EMBASSY'S BACKGROUND SUMMARY OF 1973/74 REVENUES (IN DOLS 000) DERIVED BY PAN AM AND AEROFLOT FOLLOWS:

REVENUES	CHANGE	PERCENT OF TOTAL
1973 1974	1973 1974	

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PA	2,163	2,523	16.6 PERCENT	31.6	27.9
SU	4,685	6,517	39.1 PERCENT	68.4	72.1

3. IT SHOULD ALSO BE NOTED THAT ALTHOUGH AEROFLOT WAS LIMITED TO OPERATION THROUGH ONLY ONE INTERMEDIATE POINT PRIOR TO PRESENT SUMMER SEASON, IT HAS DONE VERY WELL IN EXPLOITING THIS LIMITED ACCESS TO FIFTH FREEDOM TRAFFIC AS THE FOLLOWING BREAKDOWN OF AEROFLOT TRAFFIC INDICATES:

(REVENUES IN DOLS 000)

MARKET 1973 1974

PASSENGERS REVENUES PASSENGERS REVENUES

MOSCOW/US	16453	4,377	15649	5211
EUROPE/US	1672	308	5,523	1306
TOTAL	18125	4685	21172	6517

4. AEROFLOT FIFTH FREEDOM PASSENGERS WHICH ACCOUNTED FOR ONLY 9 PERCENT OF ITS TOTAL US TRAFFIC IN 1973 ACCOUNTED FOR 26 PERCENT OF THE TOTAL IN 1974. IT HAS OPERATED THROUGH PARIS ON TWO OF ITS FOUR WEEKLY FREQUENCIES SINCE THE BEGINNING OF THE CURRENT SUMMER TRAFFIC SEASON. ITS AGREEMENT WITH PAN AM - IF APPROVED BY GOVERNMENTS - WOULD PERMIT IT TO OPERATE THROUGH INTER-MEDIATES ON 3 OF ITS 4 FREQUENCIES BEGINNING IN APRIL 1976 AND THEREAFTER ON ALL BUT ONE OF ITS WEEKLY FREQUENCIES. IT IS CLEAR THAT IN SUCH A SITUATION AEROFLOT WOULD NOT ONLY DOMINATE THE DIRECT US-USSR MARKET, BUT WOULD BE IN A POSITION TO DRAW A SIGNIFICANT PORTION OF TRAFFIC FROM PAN AM AND OTHER US CARRIERS BETWEEN THE US AND POINTS IN EUROPE.

5. FINALLY, IT SHOULD BE NOTED THAT THE PAN AM-AEROFLOT AGREEMENT CALLING AS IT DOES FOR SIGNIFICANT INCREASES IN LEVELS OF SERVICE HARDLY SEEMS APPROPRIATE RESPONSE TO WHAT APPEARS TO BE SHRINKING MARKET. WE HAVE BEEN UNABLE TO OBTAIN SUMMER 1975 TRAFFIC DATA. HOWEVER, PAN AM'S AND AEROFLOT'S OWN ESTIMATES SHOW TOTAL POTENTIAL LIMITED OFFICIAL USE
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MARKET AT 98,782 PASSENGERS IN 1973 AND 93,448 IN 1974. ON OTHER HAND, PAN AM IN DEFENSE ITS AGREEMENT WITH AEROFLOT ASSERTS THAT ONLY 24.5 PERCENT OF US-USSR TRAFFIC IS CARRIED ON NATIONAL CARRIERS; THE BALANCE IS CARRIED ON THIRD COUNTRY AIRLINES. PAN AM ARGUES - AND THERE MAY BE MERIT IN POSITION - THAT EXPANSION IN FREQUENCY AND CAPACITY WILL LEAD TO IMPROVEMENT IN MARKET SHARE OF PAN AM AND AEROFLOT.

6. ON BALANCE, WE ARE INCLINED TO BELIEVE PAN AM-AEROFLOT AGREEMENT IS NOT IN PAN AM OR US COMMERCIAL INTERESTS. WE ARE ALSO CONCERNED THAT IF PRESENT CIVAIR ARRANGEMENTS ARE EXTENDED ON BASIS OF AIRLINE AGREEMENT OR ON SOME SIMILAR BASIS AND IF FOR ONE REASON OR ANOTHER PAN AM DOES NOT OPERATE ITS FULL ALLOTMENT OF FREQUENCIES AND CAPACITY, WE WILL BE LEFT WITH A SITUATION IN WHICH AEROFLOT WILL NOT ONLY DOMINATE DIRECT US-USSR AIRLINE MARKET BUT WILL CARVE OUT FOR ITSELF A SIGNIFICANT SHARE OF US-EUROPEAN TRAFFIC THAT BELONGS PRIMARILY TO US AND WESTERN EUROPEAN AIRLINES. ON OTHER HAND, WE MAY ULTI-

MATELY BE WILLING TO ACCEPT A DEAL ON BASIS OF THE AIRLINE AGREEMENT UNDER CERTAIN CIRCUMSTANCES. IT MAY BE POSSIBLE, FOR EXAMPLE, TO EXTEND CIVAIR ARRANGEMENTS FOR A PERIOD SHORTER THAN THE 3 YEARS CONTEMPLATED IN THE AIRLINE AGREEMENT. WE MIGHT ALSO BE WILLING TO ACCEPT THE AIRLINE AGREEMENT AS THE BASIS FOR EXTENDING CIVAIR ARRANGEMENTS IF THIS CAN BE ACCOMPLISHED WITHOUT

INTERGOVERNMENT TALKS. IN OUR VIEW THESE TALKS WOULD BE DIFFICULT AND WOULD INEVITABLY CENTER ON QUESTION OF ADDITIONAL AND COMMERCIALY VALUABLE U.S. TRAFFIC RIGHTS FOR AEROFLOT IN EXCHANGE FOR OPTICALLY RECIPROCAL BUT COMMERCIALY INSIGNIFICANT USSR TRAFFIC RIGHTS FOR PAN AM.

7. ACTION REQUESTED: WHETHER OR NOT WE ULTIMATELY AGREE TO EXTENSION OF PRESENT CIVAIR AGREEMENT ON BASIS OF PAN AM-AEROFLOT FREQUENCY - CAPACITY AGREEMENT AND WHETHER OR NOT CIVAIR AGREEMENT IS EXTENDED FOLLOWING FORMAL INTERGOVERNMENTAL NEGOTIATIONS, BELIEVE IT TACTICALLY USEFUL IN MEANTIME TO COMMUNICATE TO SOVIETS LIMITED OFFICIAL USE
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US UNHAPPINESS WITH THE AIRLINE AGREEMENT. THIS SHOULD SERVE TO ILLUSTRATE TO SOVIETS THE HIGH VALUE US PUTS ON ADDITIONAL FREQUENCIES AND CAPACITY AS CONCESSION AND HOPEFULLY CONTAIN EXTENT OF SOVIET ASPIRATIONS WITH RESPECT TO FURTHER TRAFFIC RIGHTS FOR AEROFLOT. THEREFORE, EMBASSY SHOULD ORALLY OR IN FORM OF NON-PAPER AT ITS DISCRETION INFORM APPROPRIATE MCA OFFICIALS THAT (1) US AUTHORITIES ARE CONTINUING THEIR CONSIDERATION OF THE APPROPRIATENESS AND NECESSITY AT THIS TIME OF INTERGOVERNMENT CONSULTATIONS AND OF POSSIBLE AGENDA AND TIMING OF SUCH CONSULTATIONS; (2) US AUTHORITIES HAVE IN MEANTIME REVIEWED THE AEROFLOT-PAN AMERICAN MEMORANDUM OF AGREEMENT OF JUNE 27, 1975 AND HAVE CONCLUDED THAT THEY ARE UNABLE TO ACCEPT THAT AGREEMENT IN ITS PRESENT FORM; AND (3) USG WOULD APPRECIATE THE SOVIET GOVERNMENT'S VIEWS ON THE PAN AMERICAN-AEROFLOT AGREEMENT. INGERSOLL

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